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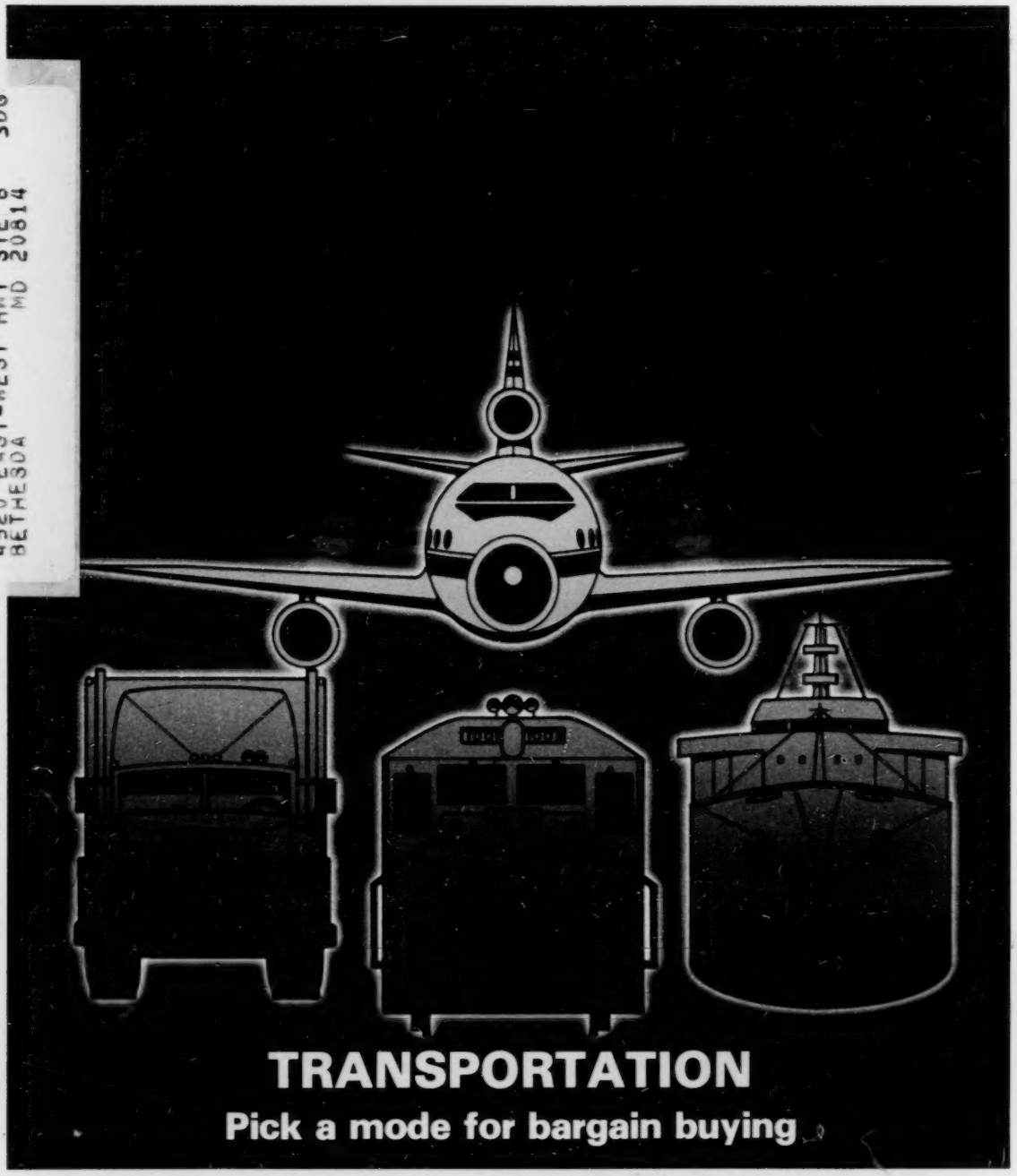

TRANSPORTATION

Pick a mode for bargain buying

What to expect from a vendor conference

Pinkerton on PCs: Dial a database

Countertrade spurs global sourcing

PurchasingWorld®

Helping you manage the business of buying

September 1986 Vol. 30 No. 9

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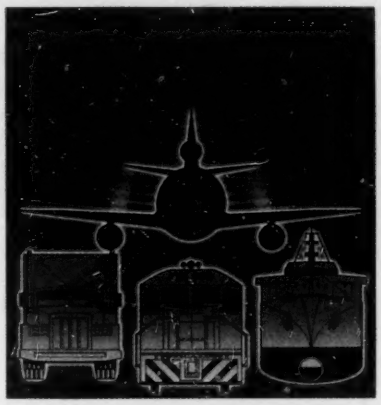

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The Cover graphic was produced by Impact Communications, Cleveland, using a computer-positioned optical imaging technique.

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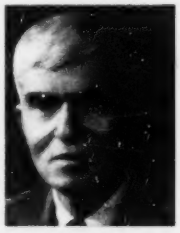
PW PREDICTS

Robert S. Reichard, executive editor

Prices ease on up

A change in the pricing climate may be brewing—with some modest acceleration in the overall inflation rate likely in the months ahead.

Factors pointing in this direction and away from the pricing lull of the past six months: new energy cost pressures, growing repercussions stemming from a weak dollar, lackluster productivity gains, the possibility of higher food costs, and continuing substantial advances in service tabs. Look at each of the above factors in detail:



- **Energy:** Oil prices are already showing signs of moving up, following the new OPEC production curtailments announced a few weeks back. This, in turn, could well strengthen natural gas and coal tags.

All this is in sharp contrast to the eye-opening 25% decline in overall fuel and power costs over the first half of the year. In any case, if the new OPEC accord proves durable, it could well add another percentage point or two onto the general inflation rate.

- **Exchange rates:** The continuing softness of our dollar *vis-s-vis* the currencies of some of our major trading partners is beginning to take its toll. The increase in the price of imported goods has been quite modest (about 7.5% excluding oil) over the past year.

The indirect effects are just as noteworthy—namely the reduced price pressures on competing American goods. Higher import prices have already enabled domestic producers to post increases.

- **Productivity:** Somewhat slower gains will have an impact on prices—tending to raise unit labor costs. This is especially true in the manufacturing sector where efficiency, after exploding at an 8% annual rate in the early years of recovery, tapered off to a 2.6% pace last year.
- **Food:** Prices seem ready to bottom out because of several special factors including the drought in the South and crop problems in the Soviet Union. Certainly it would be unrealistic to expect a repeat of the first half of 1986.
- **Services:** This is one area that really never took much of a price breather. Indeed, there has been a disturbing 6% advance in the last six months.

How much price acceleration can we expect then? First one has to factor in the underlying rate of inflation—one not distorted by recent energy and food declines. This adjusted yardstick shows a steady rise over the past year—on the order of 2% at annual rate.

Next, add in the upward pressures detailed above, and this 2% rate will obviously be higher. Not surprisingly, one big econometric consulting firm is now telling its clients to expect a steady rise in industrial producer prices—with these increases in the next four quarters at annual rate: 4Q 1986 (1.9%), 1Q 1987 (2.3%), 2Q 1987 (2.6%), and 3Q 1987 (3.9%).

Even White House economists, who tend to be overly optimistic, see some price increases ahead—putting the GNP price deflator at 3.7% next year.

Tin

The wages of tin are still falling—to perhaps as low as $2/lb during the next year or so. That's a big drop from the $5.60/lb it was fetching last fall when the bottom fell out of the market.

This new projection by Chase Econometrics hinges on two factors: 1) lingering production excesses and 2) the substantial above-ground inventories held by bankers and brokers.

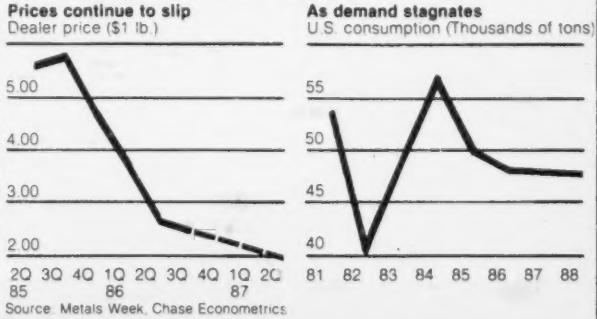
Production of Southeast Asian tin has not been as severely reduced as many analysts had expected. While some operations have been forced to close, increased production in other regions, such as Brazil, are likely to maintain near-term output close to last year's levels.

The second factor, the one that will depress tin prices for years to come, is the 40,000 tons of collateral metal turned over to bankers and brokers by the International Tin Council (ITC) as partial payment of its debts. The new owners of the metal will begin releasing tin into the market more rapidly, says Chase, as prices head lower over the next 18 months.

Adding to near-term downward pressure will be disappointing consumption trends. Analysts at Chase estimate that U.S. chewup will actually slow down a fraction next year—dropping to 48.14 thousand tons. Worldwide, the increase is estimated to be less than 1%.

This pattern isn't likely to change much over subsequent years as the tinplate market continues to stagnate. The study now puts the estimated annual increase in domestic demand at 0.05% through 1990.

Tin: portrait of a bear market



Source: Metals Week, Chase Econometrics

PW PREDICTS

Steel

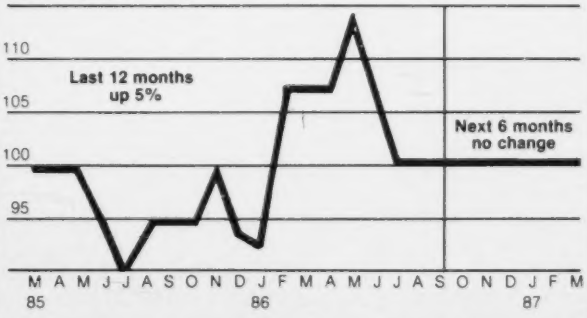
CURRENT SITUATION: Buyers are still in control despite recent work stoppages. Chalk it up to lackluster demand—3Q domestic shipments are down about 2 million tons from April-June levels. True, a new 2-3% increase has been posted on flat-rolled products. Even so, these items are still under early spring levels. And while the weakening dollar is making overseas bargains harder to find, imported steel is still a big problem—imports still make up 23% of the U.S. market.

DEMAND: Domestic mills should ship only about 70 million tons this year—several million under early 1986 estimates. Much of this stems from fairly poor performances in the auto and machinery industries but structural changes are also playing a role—cars are getting smaller and other materials are replacing steel. **Steel consumption should total only 93 million tons this year—off 4 million tons from 1985.**

SUPPLY: There's just too much capacity around. The industry continues to operate at only 70% capacity—pretty low in the face of near 16% capacity reduction of the past five years. Even with the predicted shutdowns, **supplies should be ample as demand rises only 2% a year and imports continue to menace.** One note: capacity cuts will generally be by big integrated producers, so minimills will become more important. Watch for their market share to increase from 18% currently to 25% by 1990.

PRICE OUTLOOK: Softness is likely once strikes are over. While lists may climb a few percentage points, there won't be much increase in transaction quotes. Price depressants include: 1) imports, 2) reports that automakers will pay no more for their steel in 1987 than they did in 1986, and 3) continuing domestic mill cost reductions.

Steel prices
C-R sheet (market level)
Index: Feb. 1985 = 100



Aluminum

Market ingot remains mired in the mid 50s as threats of major strikes recede. Adding to the weakness is the fact that customers are currently relying on their substantial strike hedges. Another factor is the still-more-than-ample global capacity—with more of the light metal from Brazil, Canada, and Australia scheduled to come on stream this year. And there is still potent import competition—especially in extruded products where some independents were recently forced to lower tags as much as 10-15¢/lb. On a more bullish note—1986 demand should be up 2-4% both in the U.S. and the rest of the Free World.

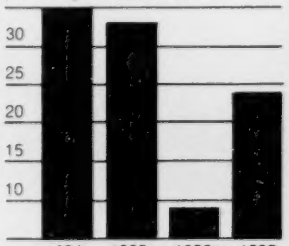
Copper

The relatively peaceful resolution of domestic labor problems is putting downward pressure on prices. And demand is off as major automotive and machinery markets level off. Producer prices shouldn't rise much above the low 60s over the next few months. They could even edge a bit lower. About the only positive sign for the industry is that costs are going down. New labor pacts are estimated to have trimmed anywhere from 4-8¢/lb from overall production outlays.

Robotics

Sagging capacity use and anemic bottom lines are putting a crimp in growth. Production is expected to be up by only 7%—far under the 30%+ advances of 1984 and 1985. But look for renewed acceleration in 1987 (to 24%)—on a combination of improved operating rates, a smaller trade deficit, and increased profitability. The numbers, supplied by Henderson Ventures, also indicate a change in emphasis over the next five years. There will be a gradual transition from today's simple robot to more intelligent ones that have machine vision and/or voice synthesis capabilities.

U.S. Robotic demand
(% change in current $)



Source: Henderson Ventures

Polyethylene

Current ample supplies could give way to possible tightness over the longer pull if new expansions don't get underway soon, warns U.S.I. Chemicals. The big firms estimate that 3.5 billion tons of additional HDPE-LLDPE capacity (35% above current levels) will be needed by 1992. Reason: Consumption of these two formulations is forecast to grow 6% annually. By contrast, conventional LDPE use will remain basically the same over this

period—at about 5.0-5.2 billion lb annually. By 1992, combined HDPE-LLDPE will comprise 75% of all the polyethylene used—up from only 60% this past year.

Office space

It's still a buyers' market—with vacancy rates (compiled by Coldwell Banker) rising to near 17% for downtown areas and to an even higher 23%+ rate in the suburbs. Major downtown areas with more than 20% rates include Denver, Miami, Nashville, New Orleans, Oklahoma City, Phoenix, San Antonio, and San Jose. There was a big surprise in New York where downtown and midtown rates were only 11.2% and 8.3%. Industrial vacancies hit a new peak of 5.7% nationally.

Semiconductors

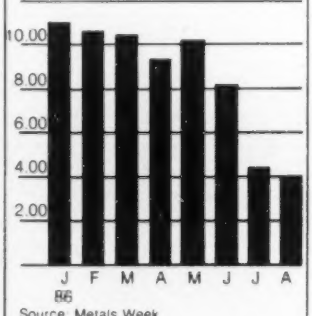
Substantially higher prices are being posted following the signing of the new U.S.-Japanese trade accord which forces our Far Eastern competitor to sell at more realistic cost-related levels. The new average Japanese floor price for 256K DRAMs is about $5+—more than double the recent street price. Some major shifts in sources of supply are also likely as the pact creates a long-term opportunity for other Asian and European competitors to undercut the Japanese. This could spur Japanese suppliers to expand their production base here—and could even encourage some U.S. firms to reenter the market.

Cobalt

Merchant prices continue to slide. In part, this is due to excess supply—aggravated by Zaire which is trying to gain market share equal to its 50% share of world production. Demand has not been all that robust either—with consumption hard put to equal last year's 15.5 million lb. It's not surprising that inventories have mounted and tags have dropped down to near $4/lb—less than half the level in January 1986. Prices could go even lower in the months ahead.

Merchant cobalt prices

($ lb.)



Source: Metals Week

Packaging

A mixed picture here. Glass bottle suppliers, aided by recent plant shutdowns, are said to be getting modest price increases. Corrugated is also starting to move up as producers lift linerboard into the $300/ton-plus range. But corrugated carton increases will be mod-

Plastic resins

CURRENT SITUATION: It's been a good year for resin users. Supplies have been more than adequate and **prices have actually dropped a bit—in line with ethylene, propylene, benzene, and other petroleum-based feedstock costs.** Liner/film grade low-density polyethylene has recently gone for as low as 25¢/lb and newly posted hikes probably won't hold. The picture is similar for general purpose/molding grade HDPE (26¢/lb vs. 31.5¢/lb earlier), homopolymer polypropylene (33¢/lb vs. 37¢/lb earlier), general purpose polystyrene (33¢/lb vs. 35.5¢/lb), and pipe grade PVC (29.5¢/lb vs. 30.5¢/lb).

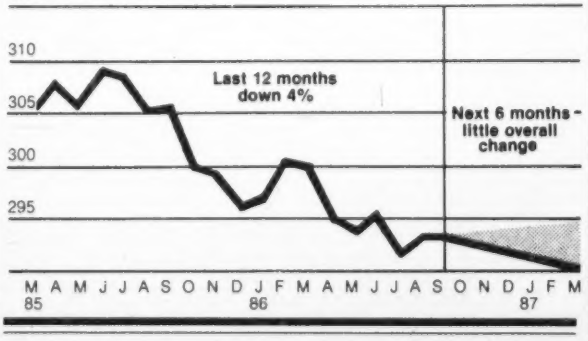
DEMAND: Overall shipments of major thermoplastics could approach 40 billion lb this year—about 4% above 1985 and well above the U.S.'s real economic growth rate. The biggest advances are seen for PP where usage could be up as much as 7%. Other estimated demand costs are as follows: HDPE (5%), PS (4.5%), ABS (4%), PVC (3.5%), and LDPE (1.5%). **Next year could be even better—Look for a 5%+ advance.** Behind this optimism: the good outlook for construction and inroads into traditional metal markets.

SUPPLY: Easy availability is highlighted by the industry's overall 86% operating rate. The rate is higher for HDPE (94%) but this is deceptive since some producers can swing from LLDPE to HDPE. There has been a significant increase in LDPE imports—and more are expected as Saudi Arabia enters the fray. **Next year, watch for only slow operating rate increases as capacity additions offset projected demand gains.**

PRICE OUTLOOK: Be prepared for near-term attempts to shore up tags—but most will be unsuccessful because of 1) continued competitive infighting, and 2) lack of feedstock cost-justification. Longer term—much hinges on how successful OPEC is in propping up oil quotes. Assume a $15/bbl crude price for next year and plastic resin price averages are likely to rise only 2-3%—**not nearly enough to recoup the declines of the past year.**

Plastic resin prices

Index: 1967 = 100



Import prices

The weaker U.S. dollar is gradually translating into higher import prices.

Lest there be any doubt on this score, take a look at the chart below. It shows tags on incoming shipments rising for four consecutive quarters.

Over this 12-month period, these imports have advanced an average of 7.5%—with a 1% increase over the latest three-month period. That's a sharp reversal from the previous twelve-month period when these same products dropped by more than 4%.

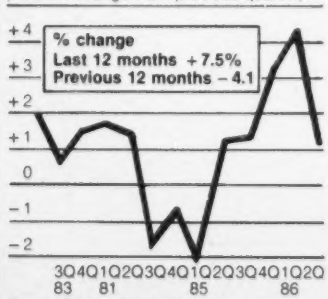
Best bet for the next three months: another 1-2% overall advance. Here's a detailed rundown:

- **Crude materials:** Prices over the April-June span rose 1.2%. The largest increase occurred in pulp and waste paper (6.7%).
- **Chemicals:** This was one of the few areas experiencing a continuing decline—reflecting the downward influence of oil on petrochemicals. On the other hand, boosts were recorded for pharmaceutical products and manufactured fertilizers.
- **Intermediate products:** Large increases were registered for cork and wood products (2.7%), and non-metallic mineral manufactures (3.3%). Smaller increases were noted for leather, rubber manufactures, textiles, and iron and steel.
- **Machinery:** Prices for imported machinery and transport equipment rose 3.4% during the second quarter—compared with increases of 3.6% and 4% in the previous two quarters. For the year ended June 1986, averages were up 12.4%.
- **Miscellaneous manufactured articles:** Big boosts were noted for professional, scientific, and controlling instruments and apparatus (5.7%)—with the 12-month advance here in the 22% range. Other increases were reported for photographic equipment, optical goods, and watches (4.4%), plumbing, heating, and lighting fixtures (2.8%), furniture (2.4%), and apparel (1.4%).

Import prices head higher

(All imports except fuels)

An overview
(Percent change from previous quarter)



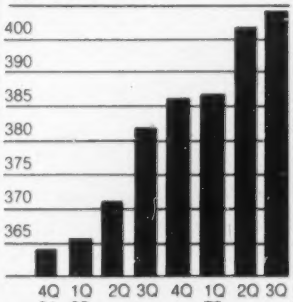
Source: Bureau of Labor Statistics

The details
(% increase over past year)

Textiles 4.2
Steel bars, rods, shapes 3.0
Fasteners 4.7
Tools 9.1
Elec. motors and gener. 17.2
Textile mchy. 15.6
Printing mchy. 28.3
Metalworking mchy. 19.0
Heating and cooling eqpt. 22.5
Pumps & compressors 9.4
Mechanical handl. eqpt. 23.6
Bearings 14.7
Office mchy. 17.0
Elec. mchy. 4.2
Autos 14.7

Glass container prices

Index: 1967 = 100



Source: BLS

Methanol

Prices continue to weaken. Quotes are now running around 30¢/gallon (Gulf Coast) for contract transactions. That's off about 2¢/gallon from late spring levels. Behind the easiness: oversupply, high inventories, and reduced demand for oil field products because of the decline in oil exploration. But prices may be ready to bottom out before too long because of 1) seasonal firming in some end use demands and 2) increased use in MTBE (as new capacity for the octane enhancer continues to come on stream).

Communications

Count on somewhat lower 1987 and 1988 telephone bills—with the downward push coming from a new FCC ruling calling for a reduction in AT&T rate of return on interstate calls. Best bet: a 3-5% decline on both regular and WATS long-distance service. And it is likely that MCI and other competitors will follow suit. The new ruling, however, is not expected to affect international, intrastate, and private line services.

Zinc

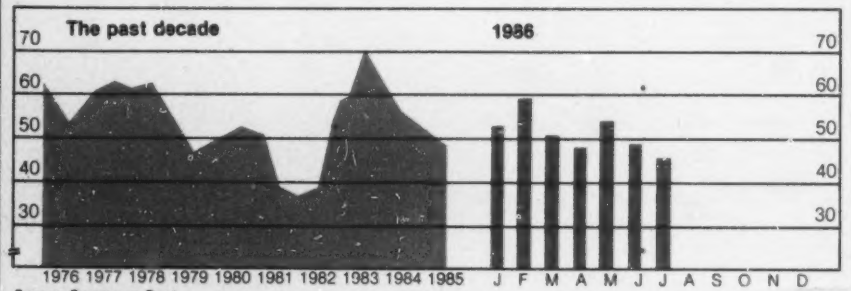
European metal has been coming in during recent weeks at about 40¢/lb—thus undermining any efforts by North American producers to enforce higher posted prices. In any case, buyers say there's enough zinc available at 40-41¢/lb to satisfy demand. Supporting predictions that prices are ready to top out are two other factors: 1) the settlement of some strikes, and 2) the soft demand from steel mills. On the other hand, year-to-date momentum should be enough to push 1986 slab zinc consumption up about 3%, to near 915,000 tons. And the longer-run outlook appears fairly good as Detroit shifts more car bodies over to galvanized steel construction. This should be enough to assure about a 2% annual rate of growth.

PW Predicts keeps you ahead on key issues in buying

BUSINESS DATATRAK

N.A.P.M. business barometer

Based on five indicators (employment, inventories, new orders, production, vendor performance)



Source: Commerce Dept.

KEY ECONOMIC TRENDS

Slump to jump a little

Figure on another few months of relatively sluggish economic growth.

The basic problem lies in manufacturing where gains have been slim. This is summed up by the N.A.P.M. Business Barometer—a combination of several sensitive factory indicators (see accompanying chart)—which has been holding below the neutral 50 level for two months running.

The lackluster near-term outlook is further substantiated by fewer new orders in manufacturing in recent months—overall factory backlogs have dropped about 1.5% since early spring.

There's no need to panic, though. There are still some strong positive forces working against any actual decline and pointing the way to perhaps some economic acceleration by yearend or early 1987.

These plus factors include:

- Still-snug inventory levels which assure additional production as new orders come in.
- Low interest rates and the propect of modest declines over the next few months.
- An expected improvement in the trade deficit stemming from a weaker dollar.
- A strong housing market—with starts expected to remain in the 1.8-1.9 million unit range through the remainder of the year.
- Fairly strong consumer purchasing power bolstered by a combination of growth in spendable income and little appreciable advance in the cost-of-living.

Consumer confidence and spending plans remain at high levels. The Conference Board reports that the number of families surveyed who expect business to be better some six months from now continues to outnumber those who see some deterioration by a 2:1 margin.

Buyers are basically optimistic (see accompanying chart). The Board's buying plan index remains near 111 (1985=100)—the highest point in years except for one unexplained jump this past April. In any event, nearly 9% of the surveyed families say they plan to buy a car over the next six months and close to 18% are contemplating buying a major consumer appliance—both fairly high percentages *vis a vis* earlier 1986 findings.

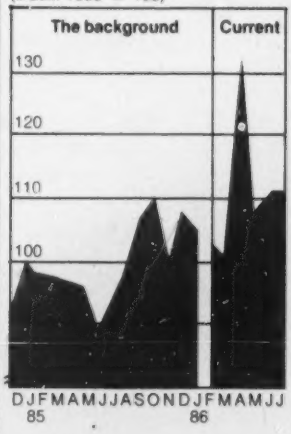
The relatively good auto outlook is further backed up by recent Detroit projections which call for a 10.7-10.9 million unit year.

Capital goods trends, while hardly buoyant, seem to be holding. As the chart illustrates, orders have been relatively flat.

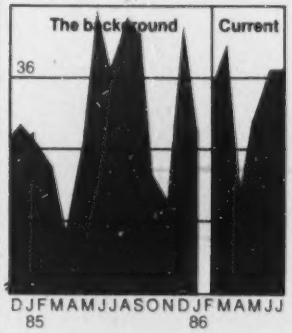
However, there could be some pickup here once the details of the new tax law are finalized and analysed. On the other

Leading indicators

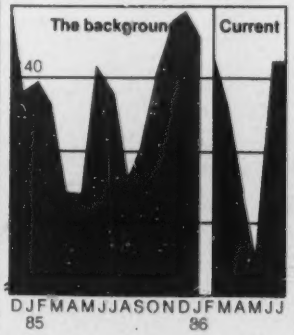
1. Consumer buying plans
(index: 1985 = 100)



2. Capital goods orders
(bil. $, seas. adj.)



3. Help wanted
(index: 1967 = 100)



hand, any big gains here have to wait on a rise in factory operating rates which, at latest report, were still at 78-80%.

Another encouraging sign is the pickup in help-wanted advertising (see chart). It reverses the downtrend of the past few months—and suggests that unemployment rates (July was 6.9%) won't be rising as some analysts had been predicting.

What does it all add up to? While near-term industrial production will remain disappointing (little more than a 1-2% annual rate of advance seems likely for the rest of the year), the longer-term prospects seem rosier — with first half 1987 factory output gains now expected to run 2.5-3.5% at annual rate.

Environmental outlays still a big bite

Anyone who thinks that the regulators in Washington are easing up on pollution control and safety equipment requirements ought to see a new McGraw-Hill study of top American firms that shows this non-productive capital spending is actually on the rise.

The study indicates that spending on pollution control equipment is expected to advance by 8.5% this year to $10.4 billion. And outlays for safety and health gear are up 5% to $7.1 billion.

It also doesn't seem likely there will be any respite next year when combined capital spending for these mandated environmental items is expected to total $17.3 billion—virtually unchanged from this year.

For pollution control, a handful of industries will continue to bear the brunt of this burden. In descending order of outlays, these sectors are petroleum, electric utilities, chemicals, paper, and automotive.

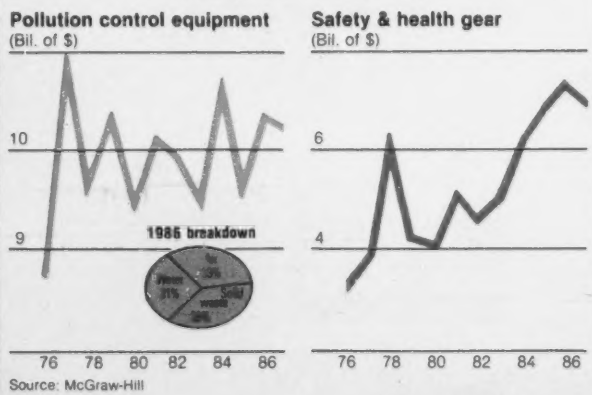
These industries' outlays for pollution control comprise a relatively large percentage of their overall capital equipment dollars—ranging from a high of 6.3% in the petroleum industry to 3.7% in automotive and utilities industries.

Some of these same industries also face hefty outlays for safety and health. The chemical industry, for instance, will shell out another 5.5% to protect its employees.

The all-industry outlay earmarked for safety and health will run in the 1.8% range for both 1986 and 1987 in contrast to the gradual increases experienced over the past few years.

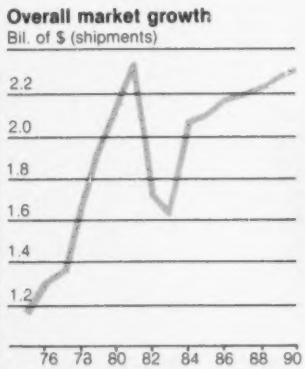
But if PMs will be spending more on safety and health, they will at least be operating in a relatively stable price environment. The survey indicates less than 2% increase in overall tags for these items in 1986.

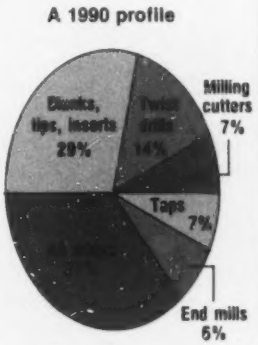
Non-productive capital equipment spending: The totals remain high



Source: McGraw-Hill

Expendable cutting tool trends





Source: Frost & Sullivan

Only a few lumps ahead for expendable tools

Expect major changes in the $2 billion plus expendable cutting tool market over the next few years. Some of the more important trends to watch for, as described in a new Frost and Sullivan 226-page analysis of this dynamic industry:

- New, more sophisticated types of tools will proliferate, prodded by technological developments, faster machine tools, and the use of newer and tougher materials.
- Overall demand growth, as measured by shipments, will be modest. Current projects call for less than 9% advance over the 1985-1990 period.
- Blanks, tips, and inserts will remain the biggest category and will show the greatest growth. This sector should account for 29% of the market for expendable tools by 1990.
- The number of vendors will shrink as mergers, acquisitions, and failures proliferate.
- Medium and large cutting tool users will buy more of their tools through bidding procedures and from an accepted vendor list.
- There will be a tendency toward more direct marketing by cutting tool manufacturers.
- Coated tools, especially the titanium nitride (TIN) type, will show fast growth.
- U.S. manufacturers and

distributors will continue to look for foreign-made tools to make them more competitive in the domestic market. Manufacturers, in particular, are looking for agreements that can be made to supplement their own lines.

■ Imports will continue to capture more of the standard cutting tool market. Imports grew at 20.7% compound annual rate over the past decade and by 1990 will have over 16% of the expendable tool market.

CURRENT PRICES

Oil could pump up tags a tad

Chalk up another month of declining industrial tags as Uncle Sam's bellwether producer price index drops a full percentage point, enough to push overall averages to 5% under year-earlier levels.

But the latest decline is a little deceptive because it reflects the weakness in energy quotes this summer—softness that has somewhat disappeared because of OPEC's newly announced production cutbacks.

It would be unrealistic to expect a repeat of last month, when hefty declines were reported in such key energy areas as gasoline, home heating oil, and residual fuels. These declines were enough to drop the overall fuel and power index by 7.5%.

A much better indicator of underlying trends is the figures for some of the major industrial groupings with the energy influence removed. What that shows is that the government's price index for intermediate products (excluding energy) actually rose by a fractional 0.1% over the past month.

The picture is much the same for more specific sectors. Several key component parts—including electric motors, generators, mechanical power transmission equipment, and bearings—all edged higher. Ditto, capital equipment where price averages are about 0.2% higher.

Construction materials also managed to eke out a small 0.2% gain over the past 30 days, as increases in plywood, hardwood lumber, wiring devices, flat glass, and sand and gravel more than offset softness in asphalt roofing and gypsum products.

A slight upturn also shows up in the chemical and allied products sectors. Thus increases in plastic resins, paints, and organics offset some easi-

This month's breakdown

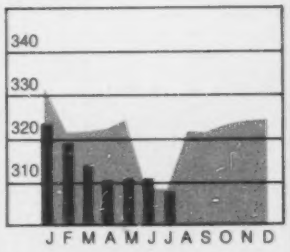
	Latest level (July)	% change from: Month ago	Year ago
Bearings	370.0	0.3	1.0
Bolts, nuts, etc	277.1	0.0	−0.2
Chemicals, inorganic	295.5	−0.3	−2.2
Chemicals, organic	324.5	0.8	− 9.0
Concrete products	325.9	0.2	1.4
Corrugated cartons	263.7	0.1	−2.5
Cutting tools, small	291.5	0.0	2.5
Electric lamps (bulbs)	347.5	0.1	1.0
Electronic components	202.5	0.7	2.5
Fans and blowers	365.6	−0.6	1.6
Foundry and forge products	363.5	−0.3	0.0
Fuel oil (residual)	434.7	−13.0	−52.1
Furniture, commercial	319.3	1.1	3.0
Gasoline	317.1	−19.2	−46.1
Glass, flat	233.9	1.9	3.4
Glass containers	399.5	0.0	3.3
Gypsum products	347.7	−1.7	2.7
Hand tools	383.6	0.1	2.3
Hand tools, power driven	238.1	−0.3	2.3
Industrial furnaces	395.5	0.1	2.7
Integrating and measuring instruments	236.9	0.7	2.2
Internal combustion engines	354.2	0.3	2.0
Lubricating oil	369.4	−1.0	2.5
Lumber millwork	321.6	0.3	2.6
Material handling equipment	297.0	0.4	0.6
Metal containers	362.3	0.4	1.2
Metal mill shapes (nonferrous)	299.9	−0.3	−2.7
Metal tanks	298.3	−1.3	−2.3
Motors and generators	353.8	1.2	0.5
Motor trucks	311.2	0.0	6.0
Office and store equipment	154.2	−0.1	−0.3
Paperboard	270.5	0.7	1.0
Paper boxes and shipping containers	267.4	0.5	−1.4
Paper office supplies	238.6	0.5	1.0
Paint	282.4	0.4	2.0
Plastic resins	299.3	1.4	−2.7
Precision measuring tools	268.2	0.1	1.9
Pumps and compressors	361.9	0.2	1.5
Refractories	373.1	0.0	0.5
Rubber belts and belting	339.8	0.7	−0.9
Scales and balances	231.3	0.0	0.9
Steel products	348.0	0.0	−4.3
Switchgear	285.3	−0.5	1.2
Textiles, synthetic fibers	150.1	0.5	−3.0
Textiles, gray fabrics	151.8	0.2	0.4
Tires and tubes	233.5	−0.8	−1.8
Transformers and power regulators	232.1	−0.2	0.0
Welding equipment	302.1	0.4	3.2
Wire and cable	205.6	−0.4	0.6

Industrial prices

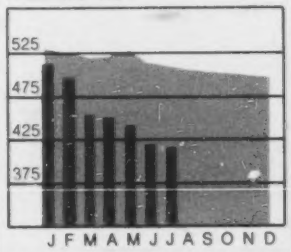
(Index: 1967 = 100)

1985 ■ ■ 1986

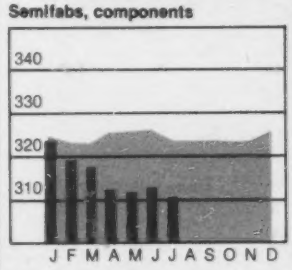
All items



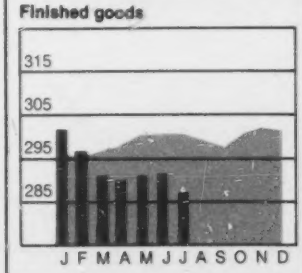
Raw materials



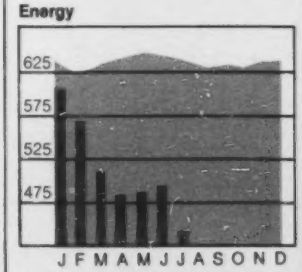
Semifabs, components



Finished goods



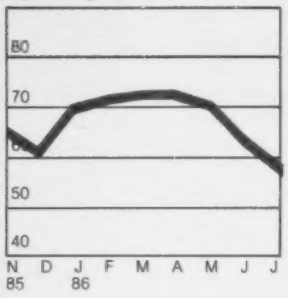
Energy



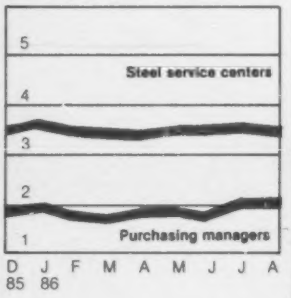
Source: Bureau of Labor Statistics

Steel

Operating rates

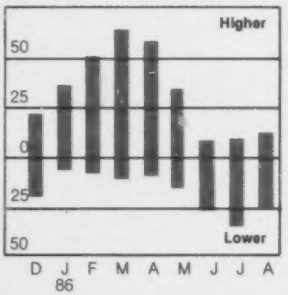


Inventories
(Months supply on hand)

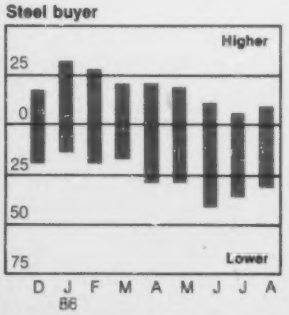


Demand
(Percent of respondents)

Service centers incoming orders



Steel buyer



Source: Steel Service Center Institute, NAPM Steel Buyers Committee

ness in inorganics and synthetic rubber.

Paper and packaging were fairly buoyant as modest increases were posted in wood pulp, paperboard, paper boxes, and paper office supplies.

All of this indicates an upward drift in overall averages in the months ahead, with energy adding to rather than subtracting from any advance. One government spokesman says that the shift in energy could add 1-2% onto overall industrial price averages by late fall.

STEEL SCENE

Inventories slimming, prices trimming

Not even scattered work stoppages have changed the tighter procurement strategies of most steel buyers.

Purchasing executives responding to a recent N.A.P.M. survey expressed some concern about possible future tightness—particularly in coated sheets. But this is apparently not enough to stimulate any major pick-up in fourth quarter commitments.

In fact, the number of PMs planning to reduce steel receipts (31%) actually outnumber those planning increases (9%) by a 3:1 margin.

Another indication that there is no big push is buyers' opinions that current stocks of the metal are still excessive. Some 44% of the survey respondents say their holdings are "too high."

It is clear why more than half of the queried buyers are now planning on steel inventory reductions in the next six months—far outweighing the 6% who plan to increase their stockpiles. This is unusual in light of the fact that the average steel buyer stocks/sales ratio is in the relatively low 2-month range.

A similar picture seems to be shaping up on the distributor front. Here, too, incoming orders over the next three months are expected to be down. The latest Steel Service Center Institute (SSCI) survey shows those anticipating decreases outnumbering those looking for gains by about a 2:1 margin.

Inventory paring is also a high priority with these middlemen. Three out of every four rate their holdings as "too high"—with only 2% planning increases.

Following up on the inventory situation, SSCI president Andrew G. Sharkey observes that "flat rolled inventories, in particular, call for caution. Although these shipments have been falling since January, inventories have been climbing. If shipment rates fall off significantly here, stock levels could become a problem."

Sharkey isn't all that bullish about overall 1986 SSCI shipments either. He notes that in spite of the high levels in the first half, current shipping levels reaffirm the SSCI forecast that total 1986 shipments will be down 2% from 1985's record pace.

The industry could be facing some long-term problems, too. A recent Paine-Webber analysis lists these four areas of concern:

- Service centers' inability to purchase steel much cheaper than many of their customers. The days of buying steel under levels sold to OEM customers is over.
- Customers are less loyal these days. They tend to get quotes from a number of vendors before placing an order.
- Demand shifts from certain regions such as the Northeast leave excess service center capacity at a time when new potential is being added in other regions such as Kentucky and Tennessee.
- There has been excess investment in processing equipment.

Distributors also have a near-term worry with declining prices. The latest SSCI survey finds that 22% of its members expect lower steel replacement costs six months from now and only 8% expect higher quotes. Distributors say that this

Import prices
(Compared to domestic)

Steel buyers

ABOVE 6%
SAME 59%
SLIGHTLY BELOW 35%
SUBSTANTIALLY BELOW 3%

Service centers (carbon)

ABOVE 0%
SAME 64%
5-10% BELOW 36%
10-20% BELOW 0%
OVER 20% BELOW 0%

could put even more pressure on profits in the next few months.

But what's bad for service centers could be good for steel users. If nothing else, the expectation of lower tags suggests that recent small mill increases, posted because of strike interruptions, will wash out once full industry production is resumed.

Soft prices, however, could be offset by the increasing difficulty in finding import bargains—bargains which are apparently drying up because of the weaker dollar and stricter enforcement of incoming quotas. This is highlighted by the fact that only 38% of the queried buyers note import quotes lower than domestic quotes.

PROCUREMENT STATUS

Nice and easy

There's still no sign of seasonal stretchouts on leadtimes that usually begin appearing in late summer—a time when factories rev up for fall demand increases.

While there hasn't been any deterioration, things aren't getting any easier either. Both *PurchasingWorld*'s exclusive leadtime index (now squarely in the neutral 50 zone) and N.A.P.M.'s speed of delivery talley show a draw for faster and slower deliveries—indicating that things are about the same as a month ago.

Even recent strikes don't seem to be having much of an effect. Deliveries of steel, aluminum, and zinc, for example, are coming in pretty much as scheduled. On the other hand, there is some concern about steel over the next few months.

Despite such scattered worries, few buyers seem to be increasing their inventory levels. The old inventory-paring trend of the past year is still going strong—witness the fact that surveyed N.A.P.M. Business Committee members who say they are cutting stocks still outnumber accumulators by nearly 2:1.

Also worth noting: The 33% reporting "lower" inventories is the largest such number since January 1983 when the current economic recovery was just about to get underway.

Forward commitments also suggest a fairly easy situation. In the production materials sector, nearly three out of five surveyed buyers said they were committing 30 days or less in advance—unchanged from the previous month. Only 17% were committing 90 days or more in advance.

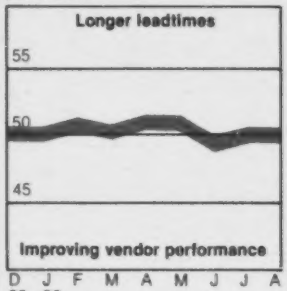
On a less optimistic note, there are signs that prices may be ready to inch ahead. Over the past few months increases were noted for corrugated boxes, aluminum, and printing paper. Many oil-related items were lower, but this is expected to change as higher prices for crude begin to have some impact.

One PM sums it up—"We really don't anticipate any problems over the next few months—despite some edging up in prices."

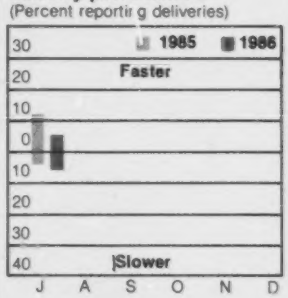
This is further confirmed by the fact that in the quarter now ending, 28% of surveyed buyers say quotes are coming in below budget. That's twice as many as those who are currently experiencing above-budgeted price levels.

Monthly procurement status report

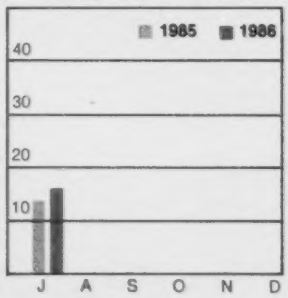
Leadtime index
A "diffusion" index based on 158 key commodities. Above "50" indicates a tendency for leadtimes to stretch out. Below "50" suggests improving vendor performance.



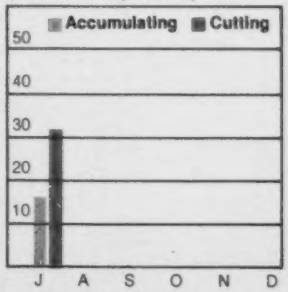
Delivery performance
(Percent reporting deliveries)



Forward commitments
(% committing 90 days or more in advance)



Inventory strategy
(Percent of respondents)



Source: NAPM

Leadtimes and availability

Chicago: Offset papers are out to 8 weeks from 4-5 weeks just one month ago. So are special brass/copper rods (to 6-12). In slightly are coated/galvanized sheet (6-7), aluminum sheet (10-12), and special brass tube (4). Little change in electronics—semiconductors are in the 13-20 week range.

Cleveland: Polyethylene has moved out slightly to 1-2 weeks. Most other items are status quo with these weekly waits: cold finished aluminum (8), PVC (2), paint (2-3), hardwood (1-2), softwood (1-3), skids (1-3), corrugated (2-3), waterproof papers (4-5), strapping (on demand), and fiber drums (2).

Los Angeles: A mixed bag here. Extending a bit are foreign fasteners (16-18), pumps (10-12), and custom seals and gaskets (5-7). But more than offsetting these are shrinkages in aluminum tubing (4-6), grey iron castings (6-8), cardboard cartons (3-5), and specialty wire (4-6).

Houston: A few buyers are concerned about vendors filing under Chapter 11. But there seem to be enough backup suppliers to assure

continued deliveries. Remaining unchanged (in weeks) are polyethylene and polypropylene (2-3), corrugated cartons (2), galvanized steel coils (10), and shop fabricated carbon steel pipe (4-13).

Philadelphia: Some offsetting changes in paper—towling down to half a week but special IBM tab cards out to 4 weeks. Unchanged are reinforced gum tape (1-2), computer paper (1-2), wooden pallets (1), styrofoam molded shapes (4-6), polyethylene paper bags (3-5), and steel banding (2).

Pittsburg: Zinc has stretched out to 3 weeks. Other waits: Polyethylene and PVC (5-6), manganese (4), nickel (2), ton lots of tin (6), steel strapping (2-3), paint (4-5), drums (1), corrugated and folding cartons (3-4), waterproof paper (8), lumber (3-4), and plastic packaging materials (2-3).

Leadtimes (in weeks)

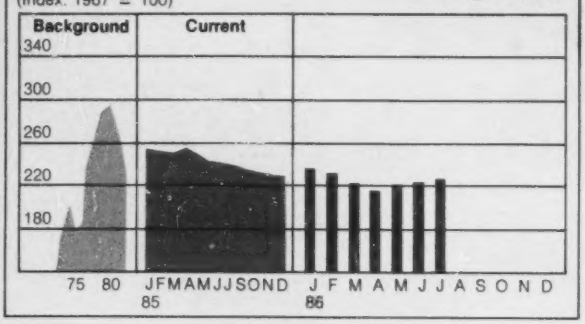
	Now	Month ago	Six months ago
STEEL			
Sheet (Phil)	4	4	4
C-R Sheet (Chgo)	7½	7½	5½
Plate (Phil)	3½	3½	3½
Plate (Chgo)	2½	2½	2½
Reinforced (Hous)	6	6	6
H-R Bars (Phil)	5½	5½	5½
H-R Bars (Chgo)	4	4	3
Cold-Drawn Bars (Phil)	5½	5½	5½
Galvanized (LA)	13	13	7
Galvanized (Chgo)	6½	7½	7
Structurals (Chgo)	4½	4½	4½
Structurals (Hous)	17	17	17
Tubing (Phil)	5½	5½	5½
Grey Iron Castings (LA)	7	9	9
Steel Castings (Hous)	11½	11½	11½
Forgings (Hous)	6	6	6
Pipe, Carbon (Hous)	17	17	13
ELECTRIC & ELECTRONIC			
Cables (Chgo)	8½	8½	8½
Capacitors (Chgo)	14½	14½	13
Circuit Breakers (Chgo)	6	6	6
Electromech. Devices (LA)	7	7	7
ICs (Linear) (Phil)	9	9	11
Motors (Phil)	9	9	10
Motors, 1000 hp & Up (Hous)	39	39	39
Printed Circuit Boards (Chgo)	9	9	9
Relays (Chgo)	15	15	15
Resistors (Chgo)	9	9	9
Resistors, Wirebound (Phil)	5	5	5
Transformers (Chgo)	10	10	10
LUMBER			
Hardwood (Pgh)	3	3	3
Hardwood (Clev)	1½	1½	1½
Plywood (Chgo)	1½	1½	1½
Plywood (Phil)	1½	1½	1½
Softwood (Clev)	2	2	2
Softwood (Phil)	⅛	⅛	⅛
Softwood (Pgh)	3	3	3
Particleboard (Phil)	2½	2½	2½
CHEMICALS-PLASTICS			
Adhesives (LA)	½	½	½
Naphthalene (Chgo)	2	2	2
Paint (LA)	4	4	1½
Paint, Coil Coating (Pgh)	4	4	4
Paint, Maint. (Cleve)	2	2	2
Polyester Resin (LA)	2	2	2
Polyethylene Resin (Cleve)	2	1½	2
Polyethylene Resin (Pgh)	4	4	4
PVC Resin (Chgo)	2	2	2
PVC Resin (Pgh)	6	6	6
Titanium Dioxide (LA)	1	1	1
PACKAGING			
Bags, Kraft (Pgh)	5	5	5
Bags, Multiwall (Clev)	9	9	9
Bags, Multiwall (Pgh)	6	6	6
Cartons, Corrugated (Cleve)	2½	2½	2½
Cartons, Corrugated (Hous)	2	2	2
Cartons, Folding (Phil)	6½	6½	6½
Cartons, Folding (Pgh)	3½	3½	3½
Cellophane Wrap (Phil)	5	5	5
Plastic Bags (Pgh)	3½	3½	3½
Plastic Pkg. (Pgh)	3	3	3
Shrink Film (Chgo)	6	6	6
Shrink Film (Clev)	1	1	1
Drums, Fiber (Pgh)	1	1	1
Drums, Steel, Std. (Pgh)	1	1	1
Wood Pallets (Chgo)	2½	2½	2½
Wirebound Boxes (Pgh)	4½	4½	4½
Strapping (Clev)	1	1	1
Strapping (Pgh)	3	3	3
PAPER			
Fiberboard (Clev)	3½	3½	3½
Glassine (Clev)	4½	4½	4½
Glassine (Pgh)	5½	5½	5½
Groundwood (Clev)	4½	4½	4½
Groundwood (Pgh)	7	7	7
Kraft (Clev)	1	1	1
Kraft, Bleached (Clev)	1	1	1
Kraft, Bleached (Pgh)	5	5	5
Kraft, Natural MFNS (Clev)	1	1	1
Laminated (Clev)	8	8	8
Tissue (Pgh)	5½	5½	5½
NON-FERROUS			
Aluminum Coil (Chgo)	11	12	11
Aluminum Plate (Chgo)	12	12	10
Aluminum Sheet (LA)	4½	4½	4½
Aluminum Sheet (Chgo)	11	12	9
Brass Castings (LA)	7	7	5
Brass Rods (Chgo)	9	7½	6½
Brass Sheet (Chgo)	5	5	4
Brass Tube (Chgo)	4	8	10
Copper Fittings (LA)	3½	3½	3½
Copper Mill Prod. (Pgh)	6	6	6
Copper Tube (LA)	7	7	7
Copper Tube (Phil)	5½	5½	5½
Lead (Pgh)	2	2	2
Magnesium (Pgh)	2	2	2
Manganese (Clev)	1	1	1
Nickel (Clev)	1	1	1
Nickel (Pgh)	2	2	2
Silicon (Clev)	1	1	1
Tin (Pgh)	2	2	2
Wire, Specialty (LA)	5	7	5
Zinc (Pgh)	3	2	2
MISCELLANEOUS			
Bearings, Domestic (Phil)	2	2	2
Bearings, Foreign (Phil)	26	26	26
Boilers & Furnaces (Hous)	35	35	35
Compressors, Centrifugal (Hous)	48	48	48
Compressors, Reciproc. (Hous)	39	39	39
Fasteners (Chgo)	1½	1½	1½
Fasteners (LA)	7	7	5
Fasteners, Std. (Phil)	2½	2½	1½
Heat Exchangers, Carbon-alloy Steel (Hous)	21	21	21
Heat Exchangers, Hi-pressure (Hous)	26	26	28
Insulation Mat'l. (LA)	7	7	7
Machined Parts (Hous)	16	16	16
Pipes & Valves (Chgo)	1½	1½	2½
Pumps (Hous)	24	24	24
Pumps (LA)	11	9	11
Rubber, Synthetic (LA)	2	2	2
Rubber Hose (LA)	4	4	4
Tungsten Carbide Parts (Hous)	15	15	15
Valves, Cast Steel (Hous)	17	17	17
Welding Supplies (Hous)	5	5	5

BUSINESS DATATRAK

Raw material price barometer

(Index: 1967 = 100)

Latest month	227.5
Month before	225.0
Year ago	240.7



Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	367.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	23.90	23.90	23.90
Steel, bars, dlvd. Phila., cwt., merchant quality	23.95	23.95	23.95
Steel, bars, Pitts., cwt.	23.95	23.95	23.95
Steel, bars, C.R., Pitts., cwt.	31.00	31.00	29.25
Steel, plates, Pitts., cwt.	18.25	18.25	23.25
Steel, plates, H.R., Pitts., cwt.	18.25	18.25	23.25
Steel, sheets, C.R., Detroit, cwt.	25.90	25.90	27.10
Steel, strip, C.R., Chi., cwt.	36.18	36.18	35.30
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	.543	.550	.475
Antimony, N.Y., dealer, lb.	1.06	1.13	1.34
Beryllium-copper, cost ingot, lb.	5.65	5.35	5.35
Brass, red, 85%, [sheet], lb.	1.27	1.28	1.31
Brass, yellow, [sheet], lb.	1.22	1.23	1.26
Cadmium, N.Y., dealer, lb.	1.04	1.05	0.85
Copper, electrolytic, wire bars, refd., lb.	.63	.64	.68
Copper sheet, over 24 in., lb.	1.36	1.37	1.40
Lead, common, N.Y., lb.	.22	.22	.19
Magnesium, pig ingot, [99.8%], lb.	1.53	1.53	1.48
Mercury, 20 fl. lots, N.Y., fl.	190.00	239.00	317.00
Molybdenum, oxide, dealer, lb.	3.00	2.85	3.09
Nickel, cathode, dealer, lb.	1.86	1.93	2.35
Platinum, dealer, oz.	541.00	437.00	268.00
Silver, N.Y., oz.	5.39	5.08	6.04
Tin, N.Y., dealer, lb.	2.55	2.58	5.81
Zinc, Prime West, East St. Louis, lb.	.440	.415	.410
Zinc, die casting alloy, No. 3, lb.	.475	.475	.485
PAPER			
Uncoated book #3 offset, ton	850.00	850.00	850.00
Watermarked bond, ton	985.00	985.00	985.00
Gummed sealing tape, carton	16.46	16.33	16.22
Shipping sacks, ton	390.00	390.00	390.00
Solid bleached paperboard, ton	580.00	580.00	550.00
Kraft linerboard, 42 lb., unbleached, ton	310.00-	310.00	290.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	.229	.247	.236
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	.94	.94	1.04
Cotton middling, 1", N.Y., lb.	.265	.655	.568
Printcloth, 48", 80x80, N.Y., spot, yd.	.70	.72	.60
Army duck, 37", 13 oz., yd.	1.45	1.48	1.70
Blended printcloth, 64", 78x54, yd.	.740	.765	.630
20s combed yarns	1.70	1.70	1.95
Wool 64s, Staple, lb.	1.90	1.95	2.05

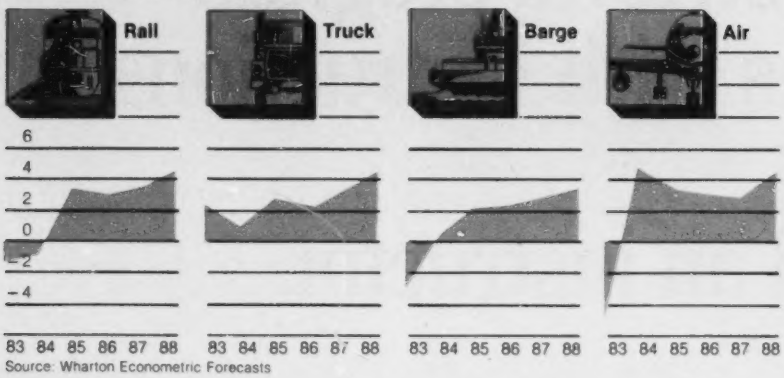
	Latest price	Previous month	Year ago
CHEMICALS			
Acrylonitrile, tanks, lb.	.395	.395	.455
Ammonia, anhydrous, tankcars, Gulf Coast, ton	80.00	80.00	N.A.
Benzene, petroleum, tanks, Houston, gal.	.68	.75	1.47
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	26.00
Cresylic acid [over 25%], tanks, lb.	.58	.58	.58
Formaldehyde, USP, 37%, [12% to 15% meth.], tanks, lb.	.106	.106	.106
Glycerine, synthetic, tanks, lb.	.91	.91	.91
Methanol, snv., tanks, 4,000 gals., f.o.b. Gulf Coast plants	.52	.52	.52
Naphthalene, crude, tanks, lb.	.22	.22	.22
Phthalic anhydride, tanks, lb.	.27	.27	.27
Polyethylene resin, low density liner film grade (market place), lb.	.255	.265	.280
Polypropylene, homopolymer grade (market price), lb.	.33	.34	.35
Polystyrene, general purpose grade (market price) lb.	.33	.31	.36
Polyvinyl chloride, pipe grade (market price) lb.	.300	.295	.270
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	.21	.21	.30
Sulphur, crude, ex-terminal, Tampa, Fla., lt.	157.50	157.50	157.50
Sulphuric acid, 66%, commercial, tanks, ton	66.86	66.86	66.86
Titanium dioxide, anatase, reg., carlots lb.	.73	.73	.69
Xylene tanks, gal.	1.36	1.36	1.36
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl	317.70	322.30	327.75
Lumber 2x2 pine, mbf, cl	311.75	315.85	304.15
Plywood, plyform, ¾", msf, cl	592.05	595.95	581.50
Plywood, ⅜", msf, cl	385.50	387.55	383.60
Cement, bulk, ton, tl	64.43	65.56	65.44
Sand, ton, cl	6.62	6.62	6.32
Ready-mix concrete, 3,000 psi/cu. yd., 15 cu. yd.	48.01	47.89	47.99
Crushed stone, 1½", ton, cl	7.80	7.83	7.75
Concrete blocks, sand/gravel, 8"x8"x16", ea., tl	0.82	0.83	0.81
Gypsum sheathing, ½"x1"x8", msf, tl	217.57	217.57	202.29
Brick, common, per thousand, tl	185.81	184.96	183.70
Asphalt paving, AC-20	145.53	150.81	176.36
Concrete sewer pipe, 12", prem. joint, per foot, cl	7.23	7.09	7.21
FUELS			
Fuel oil, No. 6 or Bunker C, Gulf., bbl.	8.00	8.50	21.25
Fuel oil, No. 6 or Bunker C, N.Y., barge, bbl., reseller	13.50	13.20	24.75
Gasoline, 91 oct., reg., Los Angeles, rack, gal.	.405	.430	.740
Gasoline, 94 oct., reg., Chi., tank car, gal.	.460	.404	.813
Heating oil, No. 2, Chi., bulk, gal.	.445	.355	.685
Heating oil, No. 2, N.Y., bulk, gal.	.430	.348	.720
Heavy fuel, PS 400, Los Angeles, rack, bbl.	26.50	26.50	26.50
Jet kerosene, gal.	.400	.340	.728
LP-Gas, propane, Okla., tank cars, gal. [incl. discount]	.245	.260	.335
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	76.00	72.00	77.00
Steel, No. 1 hvy., dlvd., Chi., ton	76.00	70.00	73.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	.540	.540	.555
Copper, No. 2, East, wholesale buy, dlvd., lb.	.460	.460	.475
Brass, red, East, wholesale buy, dlvd., lb.	.500	.500	.515
Brass, yellow, East, wholesale buy, dlvd., lb.	.310	.300	.325
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	.325	.310	.280
Alum., mixed clip., E., wholesale buy, dlvd., lb.	.345	.330	.315
Zinc, old, East, wholesale buy, dlvd., lb.	.17	.15	.11
Lead, clean solids, East, wholesale buy, dlvd., lb.	.120	.130	.105
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	25.00	20.00	10.00
Paper, old corrug. box, dlr., N.Y., ton	18.00	15.00	8.00
Osnaburg cuttings, dlr., f.o.b. N.Y., lb.	.09	.09	.09
White wipers, No. 1, dlr. buy, f.o.b. N.Y., lb.	.11	.11	.20

[Sources: Metals Week, Engineering News-Record (20-city averages), Platt's Oilgram Price Service.]

Freight tabs weighted down by poor demand, competition

Freight cost outlook by mode

(Percent increase over previous year)



Source: Wharton Econometric Forecasts

These new estimates, prepared exclusively for *PurchasingWorld* by Wharton Econometrics, also indicate that this moderation will be evident in all modes—with rate increases for truck, rail, and air cargo trailing year-earlier levels.

Even next year, when economic activity is expected to accelerate a bit, looks good. Overall rates in 1987 should advance by only 3.3%. Following that, in 1988, the pace should pick up as oil prices begin to rise again.

But Wharton analysts hasten to add that there could be considerable variation among shippers depending on how much clout the transportation buyer has. Talks with some buyers in larger firms indicate that they have been able to pare some of the recently announced hikes. In some instances, the buyers are paying no more than they did last year.

With this in mind, here is a more detailed rundown on how things seem to be shaping up by mode:

Trucking: Because of the pervasive buyers' market, most carriers have been able to hold onto only one to two percentage points of the 5.5% general rate increase approved by the ICC earlier this year. Much of the rest has been passed back to shippers in the form of discounts.

That isn't to imply that there aren't some upward pressures, particularly the dramatic increases in insurance costs. But even here things are moderated by a recent Federal Highway Commission ruling allowing carrier self-insurance if the company receives ICC approval on a number of financial and safety standards. This is taking some of the sting out of the insurance boosts.

It's easy to see why Wharton expects overall 1986 trucking rates to rise only 2.5% this year in view of 1) the competitive pressures and discounts noted above, and 2) demand for truck traffic year running less than 3% ahead of 1985 levels.

As for next year, Wharton sees only a 3.3% acceleration. In 1988, when oil is expected to rise, the average advance is expected to remain in the tolerable 4.4% range.

Railroads: Demand is playing a major role here, too. Ton-mile totals in the first half, reported by the American Association of Railroads, is off by almost 1%. While some late 1986 rebound is expected, it is doubtful that this will permit more than a fractional tonnage gain for the year as a whole.

Even with piggybacking bucking the trend with gains of about 10%, it isn't enough to lift the industry out of the doldrums. Recent rate increases have been minimal. For all of 1986, rate increases will probably average around 3.2%. Increasing economic activity and rising input costs should push rates up 3.5% in 1987 and 4.2% in 1988.

Barges: Overcapacity is the major factor in depressed rates here. And demand is not very robust either, as Great Lakes traffic remains flat and grain and coal shipment forecasts indicate little near-term gains.

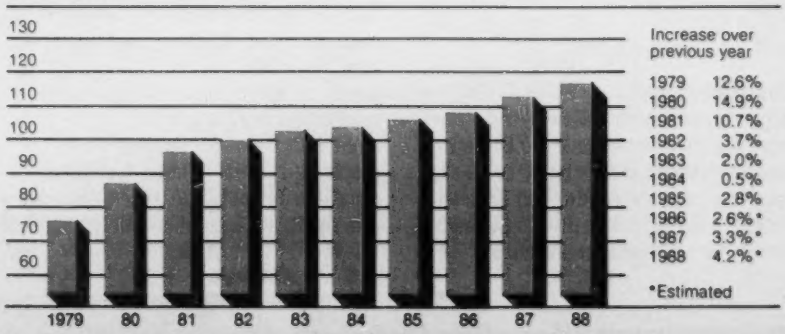
Prices showed the most modest increase of all the modes last year (only 2.1%). And any increases are likely to remain low—2.4% in 1986 and only around 3% for 1987.

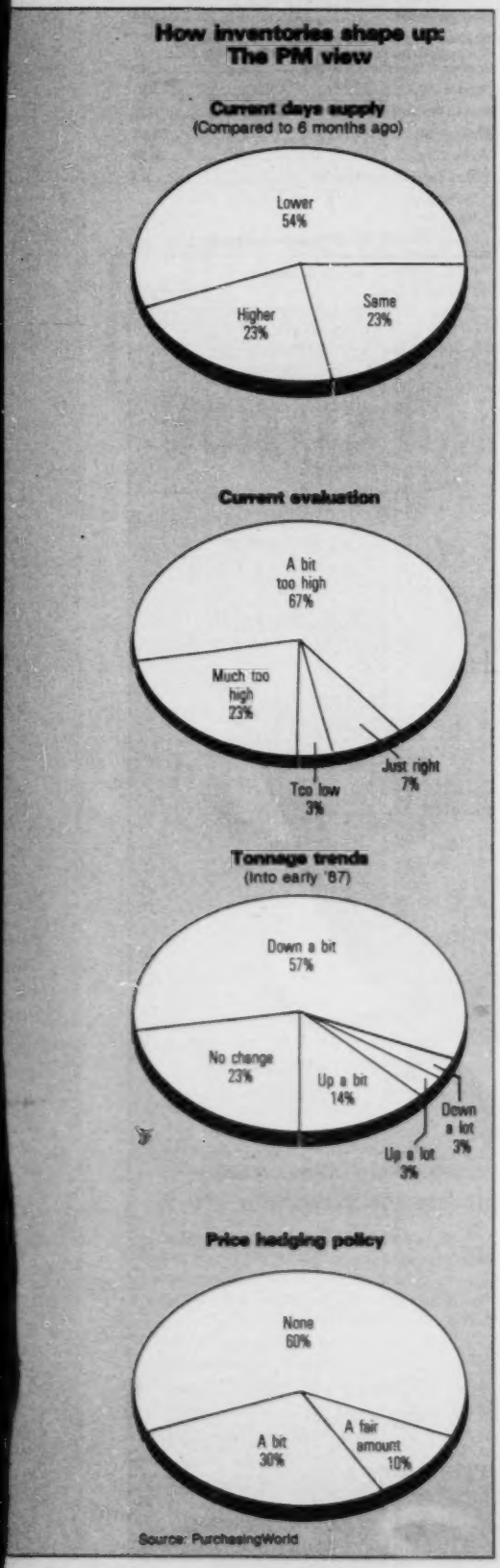
Air transport: The industry had a mixed 1985, with passenger service up about 10%, but freight down by a similar amount. Mail freight was up but cargo was down significantly. On the price front: Oil prices have reduced cost pressures and merger and acquisition activities provide a fertile environment for price wars.

Look for price hikes of only 3.1% in the current year (vs. 3.7% in 1985). And, as competitive pressures intensify, there could be even more deceleration (to about 2.7%) in 1987. But 1988 will be a different story, with rates rising about 4.4% as inflation (both in fuel and overall) begins to play a more significant role. ***PW***

PurchasingWorld freight rate index

(1982 = 100)





PMs want less, will pare inventories

If industrial purchasing executives have their way, inventory levels could drop even more in the near future.

"There is no reason for any other strategy" observes one Midwestern PM who cites four solid reasons for this continuing trend toward lower stock levels:

1) ample or better supplies,
2) relatively high inventory carrying costs,
3) improved management of existing holdings, and
4) increased willingness by vendors to meet more stringent delivery requirements.

With this in mind, here's a more specific rundown of *PW*'s latest survey of how buyers currently see inventory trends:

- **Current day's supply** averages are down from months ago, according to 54% of the buyers—more than twice the number that noted some increase. This downward trend is also confirmed by the latest government statistics which show the dollar-deflated (real) stock/sales ratio for durable purchased materials at 0.60—down from 0.62 at the end of 1985.
- **Current evaluation** is still too high according to 90% of the surveyed PMs. That far outweighs the 7% who feel they are "just right" and the 3% who rate them "too low."
- **Excesses** are found in metals, such as steel, copper, and aluminum—probably because of some hedge buying to protect against strike interruptions. Other products on the list include bearings, castings, fasteners, plastic products, electronic components, and some chemicals.
- **Near-term plans** of over 60% of the respondents include dropping overall tonnages in the next six months—more than three times the 17% who plan increases.
- **Price hedging** to beat an upcoming price boost is not out of the picture for 40% of buyers, despite their hold-the-line approach. Some of this has been taking place in imports where a weaker dollar promises higher prices before too long.
- **Leadtimes** are no problem. An overwhelming 90% of those queried expect delivery times to remain at or near current low levels.
- **Inventory carrying costs** are averaging 22% (including the cost of money) for more than half the respondents.

This new *PW* survey also points up some of the strategies being used to keep overall inventories down. The most often mentioned approaches are blanket orders, computerization, a gradual shift to just-in-time delivery, better monitoring of production schedules, and improved forecasting.

One buyer tells of his 5-pronged approach to pare obsolete and slow-moving inventory which includes: 1) engineering modifications to permit more uses for current requirements, 2) fire sales of repair parts to customers, 3) returns to vendors, 4) sales to surplus dealers, and 5) scrap disposals.

The increasing emphasis on closer buyer-supplier relationships is perhaps best summed up by a purchasing executive at Beloit Corp.'s Jones Division: "Our philosophy is to communicate with our vendors and promote any blanket orders based on our best plan. This open book communication with our vendors permits them to schedule their production and inventories to coincide with our forecast. However, we do emphasize that the economy drives demand and that the vendor must take some risk and be astute in his inventory production planning."

PW